

Idaho Economic Forecast

DIRK KEMPTHORNE, Governor

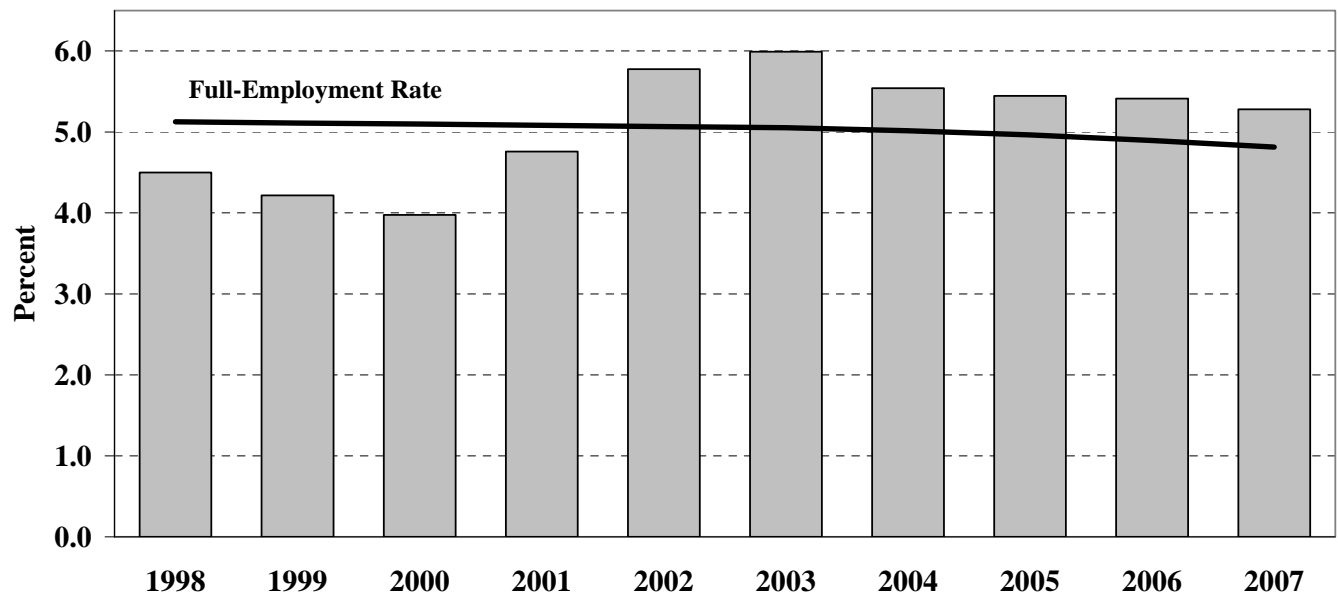
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- Forecast 2003-2007
- Understanding Deflation
- Alternative Forecasts

U.S. Civilian Unemployment Rate



Source: Global Insight

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**IDAHO
ECONOMIC
FORECAST
2003 - 2007**

State of Idaho
DIRK KEMPTHORNE
Governor

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PREFACE

Idaho's economy continues to grow and evolve as it enters the 21st Century. The 1980s was a decade of stop-and-start economic performance. However, it also ushered in one of the longest expansions in the state's history. Since 1987, nonfarm employment has expanded in every year and consistently placed Idaho among the top ten fastest growing states in the nation. The 1990s saw a flood of new residents move into the state, causing the population to expand by an astounding 29% from 1990 to 2000. Over this period Idaho personal income nearly doubled. Much of the current expansion results from ongoing structural changes in Idaho's economy.

One of the biggest changes is the rise of the state's high-technology sector. Virtually nonexistent in the 1970s, this sector achieved critical mass in the 1990s to become the state's largest manufacturing employer. The growth of industry giants, such as Micron Technology and Hewlett-Packard, as well as the emergence and expansion of smaller companies, pushed payrolls above even the most optimistic forecasts made in the 1980s. The state's trade sector has also been going through a transformation. The last decade witnessed an influx of national "big box" merchandisers. During this same time, Idaho merchants successfully reached beyond the state's borders. Several regional shopping centers were established that serve locals, as well as attract shoppers from other states and Canada. Visitors fueled the surge in tourism that also benefited trade. Like its national counterpart, the service sector accounts for most of the nonfarm jobs in Idaho. Tourism has also been a boon to the service industry. While traditional factors, such as increasing discretionary income, continue to fuel the demand for services, other influences have emerged. For example, the use of temporary employees in manufacturing has bolstered business services employment. Idaho's outstanding work force has been a major factor in attracting call centers, back office operations, and credit companies.

While many changes are taking place today, traditional resource industries still play a major role in Idaho's economy. Indeed, the state's mining, agriculture, and timber sectors all experienced lulls in the late 1990s. While displaying more resilience to downturns than in the past, these industries are not totally immune from business-cycle effects. This continuing dependence on natural resources will bring a host of challenges to Idaho.

Other factors that are external to the state's economy will also present challenges to decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Engineering and Environmental Laboratory and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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TABLE OF CONTENTS

Preface.....	iii
Introduction.....	2
Executive Summary	5
Idaho and U.S. Forecast Summary Tables.....	6
Forecast Description:	
National.....	8
Idaho	14
Forecasts Comparison.....	22
Alternative Forecasts	24
Feature Article	
Understanding Deflation.....	27
Forecast Detail	31
Annual Forecast	32
Quarterly Forecast	46
Appendix.....	61
Global Insight U.S. Macroeconomic Model.....	62
Idaho Economic Model.....	64
Equations	66
Endogenous Variables	70
Exogenous Variables	72

INTRODUCTION

The national forecast presented in this publication is the March 2004 Global Insight baseline forecast of the U.S. economy. The previous *Idaho Economic Forecast* is based on the November 2003 Global Insight baseline national forecast.

After declining in 2003, it appears U.S. nonfarm employment is back on a growth track. This can be seen in the cover graph of this *Forecast*. The U.S. unemployment rate rose to 6.0% in 2003, or nearly a full percentage point above the estimated full-employment rate. Beginning this year, the U.S. economy should enjoy net job gains. As a result, the gap between the measured unemployment rate and the estimated full-employment rate should shrink by half over the forecast period.

FEATURE

The feature article is titled, “Understanding Deflation.” It was written by Tao Wu, who is an Economist with the Federal Reserve Bank of San Francisco. Deflation is an economic topic that traditionally receives little attention, especially compared to inflation. However, Japan’s recent long-term bout with falling prices and the United State’s recent brush with deflation, should convince us it is a phenomenon worthy of our attention. This article serves as an excellent primer on deflation. It discusses why it is a subject of concern and looks at the recent experience of inflation and deflation in the U.S. and other countries.

THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. Global Insight examines the effects of different economic scenarios, including the potential impacts of international recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are included in this report.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1992 to 2007 and for every quarter from 2001 through 2006. The solution of the Idaho Economic Model (IEM) for this forecast begins with the fourth quarter of 2003.

Descriptions of the Global Insight U.S. Macroeconomic Model and the IEM are provided in the Appendix. Equations of the IEM and variable definitions are listed in the last pages of this publication.

CHANGES

The historical Idaho nonfarm employment data appearing in this forecast was provided by the Idaho Department of Labor and seasonally adjusted by the Division of Financial Management. This data consist of final employment estimates through the third quarter of 2003 and preliminary data for the fourth quarter of 2003. These new historical data show the employment forecasts for both the third and fourth quarters of 2003 were too optimistic. As a result, Idaho nonfarm employment was about 4,500 lower in the last quarter of 2003 than had been previously forecast.

The tables in this forecast also include the U.S. Department of Commerce’s Bureau of Economic Analysis (BEA) estimates of Idaho quarterly personal income through the third quarter of 2003. The BEA will

release its next Idaho personal income estimates in late April 2004. These new data will be incorporated into the July 2004 *Idaho Economic Forecast*.

A couple of changes to the historical data made it necessary to reestimated the Idaho Economic Model (IEM). First, the base year for several deflators was changed from 1996 to 2000. Second, Global Insight renamed several of the variables used by the IEM. In order for the model to work, these names were incorporated into the model. The names for the new variables and their definitions can be found in the Appendix of this *Forecast*.

The *Idaho Economic Forecast* is available on the Internet at http://www.state.id.us/dfm/econ_pub.html. Readers with any questions should contact Derek Santos at (208) 334-3900 or at dsantos@dfm.state.id.us.

SUBSCRIPTIONS

You can access the *Idaho Economic Forecast* for free at http://www.state.id.us/dfm/econ_pub.html.

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